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February 23, 2001

VIA FEDERAL EXPRESS

Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
445 – 12th Street, S.W.
Washington, D.C. 20554

Re: CC Docket Nos. 00-256, 96-45, 98-77, and 98-166

Dear Ms. Salas:

Enclosed is an original and one copy of the Comments of the Plains Rural Independent Companies for filing in the above-referenced dockets. Please return a file-stamped copy in the enclosed self-addressed, stamped envelope at your convenience. Thank you for your consideration in this matter.

Very truly yours,

Kelly R. Dahl
FOR THE FIRM

KRD/eam
DOCS/448501.1
Enclosures

cc: Sue Vanicek (w/o enc.)

No. of Copies rec'd 0
List A B C D E

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers	))))	CC Docket No. 00-256
	)	
Federal-State Joint Board on Universal Service	))	CC Docket No. 96-45
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)))	CC Docket No. 98-77
	)	
Prescribing the Authorized Rate of Return For Interstate Services of Local Exchange Carriers	)))	CC Docket No. 98-166

COMMENTS OF
THE PLAINS RURAL INDEPENDENT COMPANIES

I. Introduction.

The Plains Rural Independent Companies (the "Companies"),[1] by their attorneys, respectfully submit their comments in the above captioned proceeding seeking comment on a Petition for Rulemaking submitted by the Multi-Association Group ("MAG"), as requested by the Federal Communications Commission ("FCC" or "Commission") in its

[1] Companies submitting these collective comments include: Alpine Communications, L.C., Arlington Telephone Company, Beresford Municipal Telephone Company, The Blair Telephone Company, Cambridge Telephone Company, Clarks Telecommunications Co., Consolidated Telephone Company, Consolidated Telco, Inc., Curtis Telephone Co., Eastern Nebraska Telephone Company, Great Plains Communications, Inc., Hartington Telecommunications Co., Inc., Hershey Cooperative Telephone Company, Inc., Hooper Telephone Company, K&M Telephone Company, Inc., Kennebec Telephone Company, NebCom, Inc., Nebraska Central Telephone Company, Northeast Nebraska Telephone Co., Pierce Telephone Co., Roberts County Telephone Cooperative Association, Rock County Telephone Company, Southeast Nebraska Telephone Co., Stanton Telephone Co., Inc. and Three River Telco.

Notice of Proposed Rulemaking ("NPRM").[2] The Companies appreciate the opportunity to comment on the MAG plan, which could significantly impact small rural companies that receive a substantial proportion of their total revenues from access charges and universal service support—two revenue streams that are affected by the MAG plan.

The Companies are commenting on the MAG plan because they think it is important for the Commission to understand the impact the plan would have on companies such as those represented in this filing, which serve rural areas in the Plains states of Nebraska, South Dakota, and Iowa. The Companies represent a unique subset of rate-of-return ("ROR") carriers that on average serve areas that are more sparsely populated than most telephone companies across the country, and are experiencing little if any access line growth. Due to these characteristics, it is critically important to these companies that the optional nature of incentive regulation that is proposed in the MAG plan be adopted. The Companies will illustrate that, much as with optional price cap regulation, not all companies can benefit from incentive regulation, and, in fact, retaining ROR regulation in its current form is vital to maintain sufficient long-term cost recovery for companies such as those represented in this filing. Furthermore, sufficient cost recovery is necessary to continue the ability to provide quality service to some of the most rural areas of the country.

[2] *See The Multi-Association Group (MAG) Plan for Regulation of Interstate Service of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket No. 00-256, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation*, CC Docket No. 98-77, *Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket No. 98-166, Notice of Proposed Rulemaking, FCC 00-448 (rel. Jan. 5, 2001) (*"MAG Plan NPRM"*).

II. The MAG Plan Should Be Adopted In Its Entirety Or Not At All.

In its NPRM, the Commission seeks comment on whether it should adopt the MAG plan in its entirety, as requested by the MAG members.[3] The Companies believe that the plan as drafted, in its entirety, accommodates the diverse needs of ROR companies. Changes to the plan, especially any changes to the two regulatory regimes, "Path A" and "Path B", may disadvantage a certain segment of carriers, namely those that are small or those that serve rural areas. Therefore, the Companies recommend no changes to the plan prior to its adoption.

The plan addresses a number of issues before the FCC with regard to ROR carriers in a coordinated, comprehensive fashion, including access reform, ROR represcription, and universal service. It is desirable to consider these issues concurrently, as they are highly interdependent, and addressing them sequentially may result in the foreclosure of the most appropriate options for all companies if decisions are made on a piecemeal basis.

III. The Access Rate Structure Provisions Of The MAG Plan Accommodate Diversity And Are No More Complex Than Current Regulatory Structures.

A. A Two-Path Scheme is Necessary to Accommodate Diversity Among ROR Carriers.

1. When the FCC established price cap regulation, it recognized that incentive regulation may not suit all LECs.

In its LEC Price Cap Order adopted on September 19, 1990,[4] the Commission established price cap regulation for the largest local exchange carriers ("LECs"). The

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[3] *See MAG Plan NPRM* at 6, &15.

[4] *See Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786 (1990) (*"LEC Price Cap Order"*).

Commission instituted its incentive-based, price cap regulation in order to reward companies that become more productive and efficient and offer new services. Throughout development of the incentive-based system, however, the Commission understood that the largest LECs have more opportunities than the mid-size and smaller LECs to realize cost savings and efficiencies[5] and thereby make the most of incentive regulation. The Commission expressed concern that assigning one productivity factor on a mandatory basis to all LECs could prove unduly burdensome for mid-size and smaller companies.[6] The evidence gathered by the Commission cast doubt on whether LECs below the largest eight in size could reasonably attain the productivity goal required by the price cap index designed by the Commission.[7] Consequently, the Commission declined to apply the same high productivity standard to all LECs and, appropriately, made price cap regulation voluntary for small and mid-size LECs and mandatory only for the largest LECs and their affiliates.

Further, the Commission recognized that a single regulatory structure cannot be sweepingly applied to all LECs. In its discussion on the scope of mandatory price cap regulation, the Commission noted that enormous differences exist among the approximately 1,400 LECs providing interstate access service.[8] Included in these

[5] In its *LEC Price Cap Order*, 5 FCC Rcd at 6799, &103, the Commission referenced the *Second Further Notice*, 4 FCC Rcd 2873 (1989), wherein the Commission "acknowledged that small and mid-size companies may have fewer opportunities than large companies to achieve cost savings and efficiencies."

[6] *See LEC Price Cap Order*, 5 FCC Rcd at 6799, &103.

[7] *See LEC Price Cap Order*, 5 FCC Rcd at 6799, &104.

[8] *See LEC Price Cap Order*, 5 FCC Rcd at 6818, &257.

differences among LECs are the number and concentration of their access lines as well as financial and operational differences in their assets, revenues and earnings.[9]

Moreover, the Commission found that significant diversity existed even within the Tier 1 group of carriers defined by the Commission. Initially, the Commission had proposed to make price cap regulation mandatory for all LECs with sustained regulated interstate revenues of at least $100 million (Tier 1 carriers).[10] However, after review of the comments and evidence, the Commission acknowledged that mid-size Tier 1 companies differed significantly from the largest eight companies in the size and scope of their operations and in the productivity they could be expected to achieve.[11] Carrier diversity necessitated a limited application of incentive-based regulation to only the largest carriers within the Tier 1 group. Similarly, significant diversity among non-price cap carriers necessitates the two-path scheme currently proposed under the MAG Plan. Just as not all Tier 1 carriers were forced to participate in price cap regulation, all ROR carriers should not be forced to participate in Path A of the MAG Plan.

2. Diversity among ROR carriers is even greater than among potential price cap carriers.

While the Commission recognized in establishing price cap incentive regulation that significant diversity existed within Tier 1 carriers that did not make the mandatory application of price cap regulation appropriate, there is even greater diversity among the ROR carriers that would be subject to the MAG plan. When the FCC instituted price cap regulation, the ratio of access lines between the largest and smallest Tier 1 carrier was 77

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[9] Ibid.

[10] *See LEC Price Cap Order*, 5 FCC Rcd at 6818, &260.

[11] Ibid.

to 1.[12] Among ROR carriers, the ratio of access lines between the largest and smallest carriers is about 29,000 to 1.[13] When the FCC instituted price cap regulation, the ratio of revenues between the largest and the smallest Tier 1 carriers was 81 to 1.[14] Among ROR carriers, the ratio of revenues between the largest and smallest carriers is about 8,860 to 1.[15] While there is no published data that quantifies the proportion of customers by area served (urban, suburban, or rural), the majority of customers served by Tier 1 companies reside in metropolitan areas. Among ROR carriers, the areas served range from metropolitan areas to very sparsely populated rural areas. Clearly, the diversity that exists among ROR carriers is greater than that of Tier 1 carriers for which the FCC was considering application of price cap regulation. Because the FCC found that the diversity of Tier 1 carriers made it inappropriate to apply incentive regulation on a mandatory basis, the greater diversity of ROR carriers presents an even greater case for applying incentive regulation on an optional basis.

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[12] Based on a comparison of total access lines for Bell Atlantic and Lincoln Telephone and Telegraph. *See Statistics of Common Carriers 1989*, Federal Communications Commission, Table 2.10.

[13] Based on a comparison of total access lines for ALLTEL (the largest ROR company) and the smallest telephone company in Nebraska, which is Sodtown Telephone Cooperative with 83 access lines. *See Statistics of Common Carriers 1999*, Federal Communications Commission (rel. Aug. 2000) at Table 1.1 for ALLTEL data. *See Annual Report to the Legislature on the Status of the Nebraska Telecommunications Industry*, Nebraska Public Service Commission, September 30, 2000, Access Line & Exchange Data Table for Sodtown Telephone Cooperative data.

[14] Based on a comparison of total operating revenues for NYNEX and Lincoln Telephone and Telegraph. *See Statistics of Common Carriers 1989*, Federal Communications Commission, Table 2.9.

[15] Based on a comparison of total operating revenues for ALLTEL and an estimate of $500,000 for a ROR company with 100 access lines or less. Small telephone cooperatives do not publicly report their revenues, thus, an exact number is not available. *See Statistics of Common Carriers 1999*, Federal Communications Commission (rel. Aug. 2000) at Table 2.11 for ALLTEL data.

3. ROR carriers serving slow growth and high cost areas such as the Plains could experience insufficient cost recovery under incentive regulation.

A combination of factors faced by small, rural companies serving the Plains, such as slow growth of access lines combined with expenses increasing faster than the rate of inflation, may cause these companies to have insufficient cost recovery under incentive regulation. While Path A incentive regulation provides for a low end adjustment, carriers which underearn and need to seek the adjustment would receive 50 basis points less than the authorized ROR.[16] This would result in insufficient cost recovery over the long-term for carriers that may consistently need to seek the low end adjustment.

The areas served by the Companies are typical of the Plains region. Most of the areas they serve are experiencing little population growth. This lack of population growth is reflected in their access line growth. About one-half of the Companies have had access line growth of less than two percent annually over the last five years, and about one-tenth have had access line growth of less than one percent annually over the same period. While these companies have had very modest overall access line growth, they often serve exchanges which are actually experiencing declines in access lines, thus, they need growth in other exchanges just to maintain their minimal growth.

Path A sets a company's revenue-per-line ("RPL") when a company opts into incentive regulation.[17] Thereafter, the initial RPL is adjusted annually for inflation, using the Gross Domestic Product-Chained Price Index ("GDP-PI").[18] While the GDP-PI is a

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[16] This low end adjustment factor applies to carriers with five or fewer study areas. *See MAG Plan NPRM*, Exhibit 1 at 1-10.

[17] *See MAG Plan NPRM*, Exhibit 1 at 1-3.

[18] Ibid.

commonly used measure of inflation that is readily available, it may not accurately account for inflation faced by small, rural telephone companies. For the last three years, the average rate of inflation as measured by the GDP-PI was less than two percent.[19] However, a stratified random sample of companies[20] represented in this filing indicates that the majority of the companies had expense growth far in excess of two percent over the preceding three years. Of the six companies selected at random, only one experienced expense growth less than two percent. The remaining six companies experienced annual expense growth ranging from about 4.5 percent annually to over 12 percent annually. Comparing the expense growth history of these companies to the growth in GDP-PI, it is obvious that the expense adjustment alone will not allow many small, rural companies to maintain access cost recovery.

4. Small companies have fewer opportunities to increase productivity through operating improvements than do larger companies.

Small companies have fewer opportunities to improve their productivity by reducing their expenses than do larger companies. Whereas larger companies can reduce their business office and installation and repair staff proportionately if they experience a loss of customers, small companies may already be operating a minimum staff that cannot be reduced without a severely decreased quality of customer service. Low customer densities make it particularly difficult to reduce installation and repair staff, as customers may be located several miles apart, increasing considerably the time spent to reach customer locations.

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[19] For 2000 the GDP-PI was 2.1 percent, for 1999 it was 1.5 percent, and for 1998 it was 1.3 percent.

[20] The sample was stratified by company size. The information was gathered by a telecommunications consulting firm from Form M information maintained for the companies.

Larger companies can also experience greater productivity benefits through automation and advanced information systems. Streamlining processes through improved information could reduce a large company's workforce by hundreds of workers. By contrast, a small company would at best reduce its workforce by a few employees if it instituted such measures. Small companies do not have the resources necessary to purchase or construct such systems, which can easily cost tens or hundreds of thousands of dollars. Furthermore, even if small companies could afford the investment, the reduction that they could make in employment would not justify the cost.

5. Small companies have fewer opportunities to increase productivity through demand growth than do larger companies.

Significant local rate increases which have occurred in some areas since the passage of the Telecommunications Act of 1996 ("the Act") may limit small companies' ability to increase productivity through demand growth. In Nebraska, the state instituted a comprehensive docket addressing universal service and access charge reform in September 1997.[21] The Nebraska Public Service Commission ("NPSC") believed that the passage of the Act opening incumbent local exchange carrier ("ILEC") markets to competition made the reduction of implicit subsidies desirable.[22] The NPSC ordered the lost support from implicit subsidies to be replaced in part through increases in rates,[23] and

[21] *See The Application of the Nebraska Public Service Commission, on its Own Motion, Seeking to Conduct an Investigation into Intrastate Access Charge Reform and Intrastate Universal Service Fund,* Application No. C-1628 (*"Nebraska Universal Service Docket"*) Order, entered September 17, 1997.

[22] *See Nebraska Universal Service Docket*, Order, entered January 13, 1999 at 3.

[23] Ibid.

ordered ILECs to raise their residential rates to $17.50 per month.[24] This action resulted in rates more than doubling in some areas, as residential customers of some companies were paying as little as $5.25 per month prior to the issuance of the order to increase rates. The end result will be residential customer local service bills in Nebraska that are almost 25 percent higher than the national average as indicated by the most recent FCC data on average residential rates in urban areas.[25]

In addition to the rate increases instituted in some states such as Nebraska, the MAG plan would increase residential customer subscriber line charges from the current $3.50 to $6.50 by July 1, 2003. These local rate increases could impact telephone penetration rates, and could definitely slow the growth of multiple household lines, or even induce households to remove additional lines. Furthermore, additional local rate increases are likely. The NPSC had originally announced that it would reexamine its current basic local service rate benchmarks in January 2001,[26] but has since concluded that it will reexamine the rate benchmarks after September 1, 2003.[27] While these rate increases could impact all companies, the impact is likely to be more severe in areas which are experiencing little or no population growth, and thus the majority of any line growth has occurred due to the demand for additional lines.

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[24] *See Nebraska Universal Service Docket*, Order, entered January 13, 1999 at 6. The order specified a four-year transition period for rural carriers, in which rates were to be at the benchmark by September 1, 2003.

[25] *See Trends in Telephone Service*, Federal Communications Commission, Industry Analysis Division, Common Carrier Bureau, December 2000 at 14-3.

[26] Ibid.

[27] *See Nebraska Universal Service Docket*, Progression Order #15, entered February 21, 2001 at 3.

6. The Composite Access Rate ("CAR") for incentive regulation is below the cost of providing access for many small, rural companies.

In addition to small companies having fewer opportunities for productivity growth, another reason that a two-path regulatory scheme is necessary is that the CAR of 1.6 cents per minute for companies under Path A incentive regulation is considerably below the cost of providing access for many small rural companies, as indicated by proxy models. While proxy models are the most readily available tool to estimate access costs, the FCC noted that they may not in fact accurately account for joint and common costs.[28] Given this caveat, both the Hatfield ("HAI") Model and Hybrid Cost Proxy Model ("HCPM") estimate that about three-quarters of the Companies have access costs of 3.0 cents per minute or greater, and nearly half have access costs of 5.0 cents per minute or greater.

Early on in the process of access reform, the Commission stated its goal was to move access rates closer to forward-looking cost levels.[29] However, the Commission did not accept the suggestion of several commenters that urged the FCC to move immediately to forward-looking rates by prescriptive measures.[30] The FCC noted that:

> Such an action could result in a substantial decrease in revenue for incumbent LECs, which could prove highly disruptive to business operations, even when new explicit universal support mechanisms are taken into account. Moreover, lacking the tools for making accurate prescriptions, precipitous actions could lead

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[28] The FCC has noted that proxy models may not accurately estimate access costs, as the provision of access involves significant joint and common costs which are not adequately addressed by proxy models. *See Access Charge Reform, CC Docket No. 96-262, Price Cap Performance Review for Local Exchange Carriers,* CC Docket No. 94-1, *Transport Rate Structure and Pricing,* CC Docket No. 91-213, and *End User Common Line Charges,* CC Docket No. 95-72, First Report and Order, FCC 97-158 (rel. May 16, 1997) (*"Access Charge Reform Order"*) at &45.

[29] *See Access Charge Reform Order* at &43.

[30] *See Access Charge Reform Order* at &45.

> to significant errors in the level of access charge reductions necessary to reach competitive levels. That would further impede the development of competition in local markets and disrupt existing services.[31]

Thus, while the CAR of 1.6 cents per minute may be the approximate forward-looking cost of access for some carriers and such carriers should be allowed to adopt Path A incentive regulation if they find it desirable, this target rate should not be thrust on all ROR carriers. The Commission clearly recognized the danger of prescriptive reductions in access rates, even with explicit support mechanisms. Therefore, it is imperative that Path B remains an option for carriers that have forward-looking costs well in excess of the CAR of 1.6 cents per minute.

B. The Two-Tiered Approach of MAG is No More Complex Than the Current Regulatory Structure.

In its NPRM, the Commission asks if the potential regulatory complexity of the two-tiered regulatory approach would have practical or administrative consequences.[32] The Companies maintain that the two-tiered approach for regulation of ROR carriers adds little if any additional complexity to the current forms of regulation. Similar to the current structure allowing price cap and ROR regulation for interstate access services, the MAG plan simply adds a different form of incentive regulation than price caps for carriers which are smaller than price cap carriers.

Path A incentive regulation will not require the extensive rate making efforts or the detailed reporting such as the Automated Reporting Management Information System ("ARMIS") that is involved with price cap regulation. Carriers under Path A will simply

[31] *See Access Charge Reform Order* at &46.

[32] *See MAG Plan NPRM* at 7, &17.

compute an RPL amount when they convert to incentive regulation.[33] Thereafter they will report the number of access lines they have in order to receive compensation. Path B requirements are unchanged from the current regulatory structure for ROR carriers. Thus, the plan requires only minimal changes to the current regulatory structure, which would have insignificant practical or administrative consequences.

C. The Selection of Optimal Regulatory Paths by LECs Will Result in Reduced Composite Access Rates for ROR Carriers.

The Commission questions whether larger LECs with relatively low costs are more likely to elect Path A, and if that election would result in inflation of Path B access rates.[34] While LECs with relatively low costs are probably more likely to elect Path A (for reasons cited previously), the reduction in access rates that will occur for these LECs as they align their access rates with the targeted CAR will likely more than offset any potential increases in Path B access rates due to low cost LECs exiting the pool. This is because larger LECs generate a substantial majority of the total access minutes for ROR carriers. Furthermore, all LECs will implement the same SLC increases under the plan,[35] which will also reduce traffic sensitive access rates. Thus, even if access rates for individual Path B LECs increase, which may not occur due to the SLC increase, the overall weighted average access rate for all ROR LECs will decrease.

[33] *See MAG Plan NPRM*, Exhibit 1 at 1-3.

[34] Ibid.

[35] *See MAG Plan NPRM*, Exhibit 1 at 1-6.

IV. The Companies Support The MAG Plan's Proposal For Disaggregating Universal Service Support And Recommend That The FCC Seek Input On The MAG Plan From The Federal-State Joint Board On Universal Service ("Joint Board").

A. The Proposal to Allow Universal Service Support Disaggregation in up to Three Zones per Wire Center is Critical for Low Density, High Cost Areas Such as Those Served by the Companies.

The MAG plan proposal to allow up to three zones per wire center for disaggregation of universal support[36] will allow companies that serve low density, high cost areas which have considerably more variation in cost than densely populated areas to target support more closely to the highest cost areas. The costs of serving customers within a community, even a small community, can vary greatly from serving customers living outside a community. In addition, there can be great variation in the cost of serving customers located within a few miles of a community, compared to customers that may live at the outer boundary of an exchange. As an example, some exchanges served by companies in the most sparsely populated areas of Nebraska cover an area of more than 1,000 square miles. Exchanges that cover an area this expansive can have customers that reside as far away as 60 miles from the central office. Due to this wide variation in cost, disaggregation of universal service support in up to three zones is necessary to adequately reflect these differences in costs.

B. The Companies Recommend that the FCC Request the Input of the Joint Board on the Plan.

The FCC notes that it will, "seek the valuable input of the Joint Board. . . ." on intrastate high-cost loop support and interstate access universal service support.[37]

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[36] *See MAG Plan NPRM*, Exhibit 1 at 1-20.

[37] *See MAG Plan NPRM* at 7, &18.

However, it is unclear whether the Commission is merely seeking comments from the Joint Board, or will formally refer the plan to the Joint Board for review. The MAG plan will impact ratepayers in all states, as one of the recommendations is to raise the SLC, which will have an impact on all ratepayers. Therefore, it is appropriate and necessary to refer the plan to the Joint Board for its input, as it is an official body constituted to determine the impact of interaction between state and federal policies on universal service.

Another reason for referral to the Joint Board noted by the FCC is that aspects of the MAG plan concerning intrastate high-cost loop support overlap with issues that are part of the Joint Board's review of the Rural Task Force ("RTF") Recommendation. One striking example of a proposal in the RTF recommendation which would render moot an essential portion of the MAG plan involves the point in time at which a carrier's universal service support per line would become frozen, and would be increased thereafter based on an inflation or other index. The RTF proposes that this would occur when a competitive eligible telecommunications carrier ("CETC") has been approved and is providing service.[38] However, the MAG plan envisions freezing universal service support at the point in time when a carrier elects Path A incentive regulation.[39] It is possible that a CETC may be approved and be providing service in a ROR carrier's service area prior to the time period in which the carrier can adopt incentive regulation. If the RTF proposal was approved, it would freeze the carrier's universal service support prior to its possible election of incentive regulation. This is but one example of the

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[38] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Rural Task Force Recommendation to the Federal-State Joint Board on Universal Service (rel. Sept. 29, 2000) at 26.

[39] *See MAG Plan NPRM*, Exhibit 1 at 1-17.

potentially problematic interactions that must be dealt with, and the Joint Board is the appropriate regulatory body to deal with such issues.

V. Conclusion.

The Companies, which are small, serve sparsely populated areas in the Plains states, and are experiencing little if any growth, recommend that the MAG plan should be adopted in its entirety or not at all. This is because incentive regulation is not suitable for all ROR carriers, given the diversity in their size, the markets that they serve, and their cost characteristics. Some ROR carriers, given their slow growth and expense increases greater than the GDP-PI, may experience long-term interstate access cost recovery of less than the currently prescribed 11.25 percent, which could jeopardize a company's ability to provide quality service. Smaller companies have fewer opportunities to increase productivity through either operating improvements or increases in demand. Furthermore, the CAR of 1.6 cents is set below the cost of providing access for many small, rural companies. While incentive regulation should move rates toward cost and increase productivity, prescriptive access rate setting below cost is uneconomic, and the FCC has noted that it may lead to the disruption of LEC business operations and existing services.

The Companies support the MAG plan's proposal for disaggregating universal service support in up to three zones per wire center. Disaggregation at this level is critical, because low density areas such as those served by the companies have more variation in costs. Allowing fewer than three zones per wire center would not permit companies to adequately target universal service support to the highest cost areas that most need the support. The Companies recommend that the FCC formally refer the

MAG plan to the Joint Board for review, as it represents the states in matters regarding universal service. Furthermore, the RTF recommendation and the MAG plan contain proposals that could overlap and/or conflict, and interactions between the two should be identified and reconciled. The Joint Board is the appropriate body to undertake this task.

Dated this 23rd day of February, 2001.

Alpine Communications, L.C.,
Arlington Telephone Company,
Beresford Municipal Telephone Company,
The Blair Telephone Company,
Cambridge Telephone Company,
Clarks Telecommunications Co.,
Consolidated Telephone Company,
Consolidated Telco, Inc.,
CurtisTelephone Co.,
Eastern Nebraska Telephone Company,
Great Plains Communications, Inc.,
Hartington Telecommunications Co., Inc.,
Hershey Cooperative Telephone Company, Inc.,
Hooper Telephone Company,
K&M Telephone Company, Inc.,
Kennebec Telephone Company,
NebCom, Inc.,
Nebraska Central Telephone Company,
Northeast Nebraska Telephone Company,
Pierce Telephone Co.,
Roberts County Telephone Cooperative Association,
Rock County Telephone Company,
Southeast Nebraska Telephone Co.,
Stanton Telephone Co., Inc., and
Three River Telco (the "Companies")

By ______________________________

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